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TAGS: PREL PGOV ETRD SNAR PE
SUBJECT: SCENESETTER FOR VISIT OF SECRETARY OF STATE
CONDOLEEEZZA RICE, MARCH 11-12, 2006

Classified By: Political Counselor Alexander Margulies.
Reason: 1.4 (d).

WELCOME

¶1. (C) Madam Secretary, Embassy Lima warmly welcomes your visit to Peru -- the first by a Secretary of State since Secretary Powell's attendance at the OAS General Assembly

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here on the fateful September 11, 2001. Your visit provides an excellent opportunity to highlight for Peruvians, as they consider who they want to guide their country for the next five years, the immense tangible benefits they have obtained through better relations with the United States. President Toledo's meeting with President Bush on March 10 will emphasize the same message.

THE POLITICAL SCENE

¶2. (C) You will arrive in the midst of an increasingly fierce election campaign that presents Peruvians with as clear a choice as any Latin American electorate faces. While there are a record 23 candidates for President, polls indicate that only three are really in the running. "Systemic" candidates Lourdes Flores (Unidad Nacional) and Alan Garcia (APRA) basically stand for the continuation of policies that have brought Peru nearly five years of five percent annual economic growth, respect for human rights, job creation and poverty reduction through market-based economic growth, and improved relations with the U.S. "Outsider" Ollanta Humala is a close Chavez ally who advances policies that reflect the path propounded by Venezuela's leader: a stronger executive promoting state intervention in the economy, suspicion of foreign trade and investment, and unsustainable, populist social programs.

¶3. (C) Chavez did his preferred candidate a disservice by blatantly seeking to influence the election. According to recent polls, Peruvians overwhelmingly reacted negatively to statements by the Venezuelan leader in early January that favored Humala's candidacy and denigrated Flores' presidential bid. In what was hardly a coincidence, Humala's

steep rise in the polls ground to a halt following Chavez's intervention, while Flores' numbers rose from one-quarter to over one-third of the vote.

¶4. (S) We, by contrast, have been cautious in commenting on the campaign, avoiding discussion of the merits of particular candidates. Instead, we have emphasized that the U.S. is prepared to work with any president elected by the Peruvian people who shares our objectives of promoting an effective fight against narcotrafficking and terrorism, democracy, human rights, and poverty reduction/job creation through economic development. Our strategy is to influence the electorate indirectly, by highlighting the immense tangible benefits that Peru has gained through closer cooperation with the U.S., such as the 800,000 new jobs generated here by Andean Trade Promotion and Drug Eradication Act (APTDEA) benefits. Opinion polls show that 55 percent of Peruvians favor the Peru Trade Promotion Agreement (PTPA) which will lock-in these benefits and create additional opportunities for expanded trade; only 35 percent oppose PTPA. The same polls show however that nearly 80 percent of the electorate believes that the incoming Congress rather than the unpopular outgoing legislature should make the decision whether to ratify PTPA. Seizing on this difference, Humala has generally avoided taking a clear public position on PTPA while insisting that ratification should not occur during Toledo's term. To keep the electorate's eye on the real ball, we have publicly side-stepped the ratification timing issue. (Ratification is in fact almost certain to happen during the present government.)

¶5. (C) President Toledo is not/not in a position to contribute to either a favorable outcome to the election campaign or public approval of the PTPA. While his government can boast of significant political, economic and social accomplishments, the President remains unpopular. As a result, his personal identification with and/or promotion of a policy can be counterproductive. In our public comments we are respectful of the President, but also take care to speak over his head to credit the Peruvian people for their contributions to the country's successes over the past four years in building a stronger partnership with the U.S.

THE ECONOMY

¶6. (U) Peru's economy grew by 6.3 percent in 2005, marking five consecutive years of strong growth. Exports have more than doubled during the four years of the Toledo Administration to USD 16.5 billion. Much of this success can be attributed to APTDEA as we buy 30 percent of all Peruvian exports and from 50 to 80 percent of labor intensive apparel and agricultural exports.

¶7. (U) The sustained growth over the last five years is starting to bring down poverty, particularly in areas that led the export boom. Poverty declined from 54.3 percent when Toledo took office in 2001, to 49.5 percent in 2005. Extreme poverty (those living on less than a dollar a day) is estimated to have declined from 24.1 percent to 18 percent during the same period. Experts believe that the economy must grow at more than six percent annually for an extended period to archive a more rapid and sustained poverty reduction. While poverty has fallen, it has not occurred fast enough to counter the popular perceptions that trickle-down has failed and that Peru's economic achievements over the past four years have chiefly benefited the rich and bypassed the poorer sectors of the population. All presidential candidates are singing this tune during the current campaign.

UN SECURITY COUNCIL

¶8. (C) Foreign Minister Oscar Maurtua desires to coordinate

closely with the U.S. during Peru's 2006-2007 tenure on the UNSC. He has told the Ambassador that he views the Secretary's visit as an opportunity to gain a greater

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appreciation for the USG's views on the Middle East peace process, Iraq, Iran and the IAEA, Sudan, and other major issues under consideration by the Security Council. With respect to the contest between Venezuela and Guatemala for a UNSC seat, the Foreign Ministry is hesitant to take a position given that the next government will be in office when the vote will be taken. That said, Toledo has made it clear to the Ambassador that he is looking for a chance to upstage Chavez and the Peruvian leader could be prevailed upon to lobby behind the scenes on Guatemala's behalf, or, at the very least, to block South American consensus behind Venezuela's candidacy.

TERRORISM

¶9. (S/NF) Colombian President Alvaro Uribe has said that his country has no better friend and partner south of the Rio Grande than Peru. In addition to assisting its northern neighbor in combating the FARC, the GOP has also had to confront an upsurge in attacks by two Sendero Luminoso (SL) columns in the jungle that survived the GOP's counter-terrorism campaign that was successful elsewhere. The Embassy responded quickly to Toledo's request for increased intelligence assistance, contributing to a recent successful operation against a top SL commander.

NARCOTICS

¶10. (C) The CNC's 2005 Peru Coca Estimate concluded that coca cultivation increased from 27,500 to 38,000 hectares over the past year. The growth in cultivation actually has been building up over the past few years (as reflected in Embassy and UN reporting during that period), and an expansion of the areas surveyed by CNC accounts for an important part of the increase. The success of eradication efforts in Colombia has driven coca leaf prices to 10-year highs in Peru. Over the past year the GOP has improved its counter-narcotics cooperation with the Embassy, exceeding its programmed coca eradication target of 8000 hectares by almost 1000 hectares, as well as eradicating 92.5 hectares of opium. The GOP also interdicted 11.5 metric tons of cocaine HCl and 4.49 metric tons of cocaine base, and destroyed 518 cocaine-base labs and 584 tons of precursor chemicals. For 2006, the GOP adopted an eradication plan that increases planned programmed eradication by 20 percent, to 10,000 hectares. Close to 500 hectares have already been eradicated this year, despite commencing during the rainy season east of the Andes.

STRUBLE